



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S TAX SETTLEMENT - 2000 TAXES**

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Laurel County Sheriff's Settlement - 2000 Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC evaluated the Laurel County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S TAX SETTLEMENT – 2000 TAXES**

August 30, 2001

Berger & Ross, PLLC
Certified Public Accountants & Fraud Examiners
800 Envoy circle
Louisville, KY 40299-1837
(502) 493-9600
Fax: (502) 499-9132

400 Democrat Drive
Suite 2107
Frankfort, KY 40601
(502) 695-7353

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

August 30, 2001

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2000 Taxes for Laurel County Sheriff as of August 30, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects. However, the audit did reveal six noncompliances, which are listed below under Report Comments..

Financial Condition:

Sheriff collected net taxes of \$11,379,221 for the districts for 2000 taxes. Sheriff distributed taxes of \$11,360,834 to the districts for 2000 Taxes. Tax refunds of \$2,274 are due to the Sheriff from the taxing districts and taxes of \$1,906 are due to the districts from the Sheriff.

Debt Obligations:

The Sheriff owes \$3,413 of 10% add-on fees to the fee account. The Sheriff's fee account owes \$4,267 to his tax account for advertising costs.

Report Comments:

- The Sheriff Should Settle Amounts Owed and Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Maintain a List of All Exonerations In His Files
- The Sheriff Should Maintain a List of Uncollected Franchise Tax Bills
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

Subsequent Event:

None.

CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2000 TAXES	3
NOTES TO THE FINANCIAL STATEMENT.....	5
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member:
American Institute of Certified Public Accountants
Association of Certified Financial Planners
National Society of Public Accountants
National Tax Association
National Association of Tax Professionals
National Association of Public Accountants

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 2000 Taxes as of August 30, 2001. This tax settlement is the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of August 30, 2001, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated June 27, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary -
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Should Settle Amounts Owed and Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Maintain a List of All Exonerations In His Files
- The Sheriff Should Maintain a List of Uncollected Franchise Tax Bills
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", written in a cursive, flowing style.

Berger & Ross, PLLC

Audit fieldwork completed -
June 27, 2002

LAUREL COUNTY
GENE HOLLON, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

August 30, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,001,913	\$ 1,149,184	\$ 4,825,796	\$ 1,826,177
Tangible Property	287,653	312,606	1,120,562	860,434
Intangible Property				305,577
Fire Protection	1,760			
Increased Through Erroneous Assessment	483	610	2,347	873
Franchise Corporation	145,132	118,852	632,974	
Unmined Coal - 2000 Taxes	94	109	458	
Oil/Gas Property Taxes	342	303	1,682	633
Additional Bills	8,007	7,436	39,395	
Penalties	12,909	14,855	61,012	27,928
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 1,458,293	\$ 1,603,955	\$ 6,684,226	\$ 3,021,622
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 16,451	\$ 18,549	\$ 76,605	\$ 29,538
Discounts	17,650	19,640	80,265	42,006
Delinquents:				
Real Estate	52,667	62,682	254,291	95,100
Tangible Personal Property	4,352	3,760	16,493	15,386
Intangible Personal Property				12,575
Miscellaneous Credits	13	16	65	
Uncollected Franchise	13,082	5,263	87,137	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 104,215	\$ 109,910	\$ 514,856	\$ 194,605
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 1,354,078	\$ 1,494,045	\$ 6,169,370	\$ 2,827,017
Less: Commissions *	57,836	61,872	225,145	120,436
	<hr/>	<hr/>	<hr/>	<hr/>
Net Taxes Due	\$ 1,296,242	\$ 1,432,173	\$ 5,944,225	\$ 2,706,581
Taxes Paid	1,295,061	1,428,997	5,941,086	2,695,690
	<hr/>	<hr/>	<hr/>	<hr/>
Refunds (Current and Prior Year)	1,615	1,846	4,979	10,315
	<hr/>	<hr/>	<hr/>	<hr/>
Due District or (Refund Due Sheriff) as of Completion of Field Work	\$ (434)	\$ 1,330	\$ (1,840)	\$ 576
	<hr/>	<hr/>	<hr/>	<hr/>

* and ** and see Page 4

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 August 30, 2001
 (Continued)

* Commissions:

10% on \$	10,000
4.25% on \$	5,615,141
2.647% on \$	6,105,847
1.5% on \$	63,523
1% on \$	49,999

** Special Taxing Districts:

Due From Library District	\$ (550)
Due To Health District	16
Due To Extension District	1,235
Due From Soil District	(813)
Due To Bush Fire District	<u>1,442</u>

Net Due Districts	<u><u>\$ 1,330</u></u>
-------------------	------------------------

The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENT

August 30, 2001

Note 1. Summary of Significant Accounting Policies

Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assesses property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on of public funds in deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 6, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$4,768,647 of public funds uninsured and unsecured.

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENT
August 30, 2001
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 6, 2000.

	<u>November 6, 2001</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 3,300,000
FDIC Coverage	100,000
Uncollateralized and unsecured	<u>4,768,647</u>
Total	\$ <u>8,168,647</u>

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 12, 2000 through August 30, 2001.

Note 4. Interest Income

The Laurel County Sheriff earned \$29,127 as interest income on the 2000 taxes. The Sheriff did not distribute the appropriate amount to the school districts and the fee account nor were all monthly distributions made as required by statute. As of June 27, 2002, the Sheriff owes \$1,661 in interest to school districts and \$1,571 in interest to his fee account to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$85,641 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of June 27, 2002, the Sheriff's owes \$3,413 in 10% add-on fees to his fee account.

Note 6. Advertising Cost and Fees

The Laurel County Sheriff collected \$9,434 in advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff overpaid his fee account for these amounts. As of June 27, 2002, the Sheriff's fee account owes \$4,267 to his tax account for advertising fees and costs.

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

August 30, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Settle Amount Owed And Collect Amounts Due

The Sheriff should collect amounts owed (due sheriff) and pay the taxing district the amount owed as follows:

County	\$ (\$434)
Library	(550)
Health	16
Soil Conservation	(813)
Common School	(521)
E. Bernstadt Independent School	(1,319)
State	576
Bush Fire District	1,442
Extension	1,235

We recommend these amounts be paid and refunds collected as soon as possible.

Sheriff's Response: Will settle immediately

2. Interest Earned In Tax Account Should Be Paid To The School Districts and The Sheriff's Fee Account On a Monthly Basis

The Sheriff earned interest in his tax account but did not remit all monthly payments to the school districts as required by KRS 134.140(3)(b). KRS 134.140(3)(b) states "at the time of the Sheriff's monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes". The Sheriff did pay interest to the schools for certain months but failed to pay for other months. The Sheriff owes an additional \$1,645 to the Laurel County School District and \$16 to the East Bernstadt School District. The Sheriff also owes the Sheriff's fee account \$1,571. We recommend the Sheriff remit payment to the school districts and his fee account for the above amounts.

Sheriff's response: Will pay.

3. The Sheriff Should Have Published The Sheriff's Annual Settlement With The County.

The Sheriff did not publish his annual settlement with the fiscal court. KRS 134.310 requires the settlement to be published pursuant to Chapter 424. The report of the settlement shall be subject to objections by the Sheriff or by the County Attorney, who shall represent the state and county, and the county judge/executive shall determine objections. Objections shall be submitted to the county judge/executive within fifteen (15) days of the filing of the settlement in the Clerk's office. If no objections are submitted, the settlement will become final. We recommend the sheriff publish his annual settlement as required by KRS 134.310.

Sheriff's response: Will publish 2001 settlement as soon as it is complete.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
August 30, 2001
(Continued)

4. The Sheriff Should Maintain a List of Exonerations.

While the Sheriff did keep a file of all orders to correct erroneous assessments, the actual listing of such corrections was not kept in the file. We recommend the Sheriff keep a listing of all exonerations in his exonerations file in accordance with KRS 134.160(3)..

Sheriff's response: Will start maintaining the list.

5. The Sheriff Should Maintain a List of Uncollected Franchise Tax Bills.

While the Sheriff does have a file to accumulated unpaid franchise tax bills, an actual listing of such unpaid amounts does not exist and it is difficult to account for all franchise tax bills. The Sheriff should maintain a listing of unpaid Franchise tax bills in his unpaid franchise tax bill file in accordance with KRS 134.380(4).

Sheriff's response: Will begin to track

6. The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

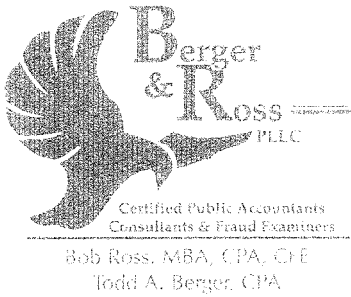
On November 6, 2000, \$4,768,647 of the County Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits or public funds at all times.

Sheriff's Response: We will demand bank to pledge proper amount from now on.

Prior Year:

- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County.
- Interest Earned In Tax Account Should Be Paid To Schools and Sheriff's Fee Account On A Monthly Basis.
- The Sheriff Should Collect Prior year Refunds Due.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



(502) 499-9088
800 Envoy Circle
Louisville, Kentucky 40299-1837

FAX: (502) 499-9132
Email: irsrescue@msn.com
Internet: www.irsrescue.com

Member:
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners
National Society of Public Accountants
National Tax Association
National Association of Tax Professionals
National Association of Public Accountants
National Association of Government Accountants

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting based On an Audit of the Financial Statement Performed in Accordance with Government Auditing Standards

We have audited the Laurel County Sheriff's Settlement - 2000 Taxes as of August 30, 2001, and have issued our report thereon dated June 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement – 2000 Taxes as of August 30, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Settle Amounts Owed and Collect Amounts Due
- Interest Earned In Tax Account Should Be Paid To Schools And Sheriff's Fee Account On A Monthly Basis
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County
- The Sheriff Should Maintain a List of All Exonerations In His Files
- The Sheriff Should Maintain a List of Uncollected Franchise Tax Bills
- The Sheriff Should Require The Depository Institution To Pledge Sufficient Collateral To Protect Deposits

Report on Compliance And On Internal Control Over Financial Reporting
Based On An Audit Of The Financial Statement Performed In Accordance
With Government Auditing Standards
(Continued)

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be disclosed within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed –
June 27, 2002

